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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1966

No. ~~1366~~ 179

ATLAS SCRAPER AND ENGINEERING CO.,
a Corporation, *Petitioner,*

vs.

HARRY A. PURSCHE, an Individual, *Respondent.*

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT.

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Subject Index

	Page
Opinions Below	1
Jurisdiction	2
Questions Presented	2
Constitutional Provisions and Statutes Involved	3
Statement of the Case	4
Reasons for Granting the Writ	10
Conclusion	20

Table of Authorities Cited

Cases

B. B. Chemical Co. v. *Ellis*, 314 U.S. 495, 86 L. Ed. 367, 62 S. Ct. 406 (1942). 18

Brulotte et al. v. *Thys Company*, 379 U.S. 29, 13 L. Ed. 2d 99, 85 S. Ct. 176 (1964). 19, 20

Cutter Laboratories v. *Lypohile-Cryochem Corp.*, 179 F2d 80, 92 (9 Cir., 1949). 14

Ethyl Gasoline Corporation, et al. v. *United States*, 309 U.S. 436, 84 L.Ed. 852, 60 S. Ct. 618 (1940). 16, 17

Frank Adam Elec. Co. v. *Westinghouse Elec. & Mfg. Co.*, 146 F.2d 165 (8 Cir., 1945). 4

Interstate Circuit v. *United States*, 306 U.S. 208, 228, 230, 83 L.Ed. 610, 621, 622, 59 S. Ct. 467. 17

Kiefer-Stewart Co. v. *Joseph E. Seagram & Sons, Inc., et al*, 340 U.S. 211, 214, 95 L.Ed. 219, 71 S. Ct. 259 (1951). 6

Leitch Manufacturing Co. v. *Barber Company*, 302 U.S. 458, 82 L.Ed. 371, 58 S. Ct. 288 (1937). 15

McCullough v. *Kammerer*, 166 F. 2d 759 (9 Cir., 1948). 4

Mercoid Corp. v. *Mid-Continent Investment Co.*, 320 U.S. 661, 88 L.Ed. 376, 64 S. Ct. 268 (1944). 17, 18

Morton Salt Co. v. *Suppiger Co.*, 314 U.S. 488, 86 L.Ed. 363, 62 S. Ct. 402 (1942). 16, 17, 18

Page

Muncie Gear Works, Inc. v. *Outboard, Marine & Manufacturing Company*, 315 U.S. 759, 768, 86 L.Ed. 1171, 62 S. Ct. 865, (1942). 4

Nachman Spring-Filled Corporation v. *Kay Mfg. Co.*, 139 F. 2d 781, 783 (2 Cir., 1943). 4

Transparent-Wrap Machine Corp. v. *Stokes & Smith Co.*, 229 U.S. 637, 91 L.Ed. 563, 67 S. Ct. 610 (1947) 11, 12, 13, 15, 20, 21

U.S. v. *General Electric Company*, 80 F. Supp. 989, 1005, 1006 (S. D. N. Y., 1948). 14

U.S. v. *General Electric Co.*, 82 F. Supp. 753, 815, 816 (D. N. J., 1949). 13

United States v. *Masonite Corporation, et al*, 316 U.S. 265, 86 L.Ed. 1461, 62 S. Ct. 1070 (1942). 16

U.S. v. *National Lead Co., et al.*, 63 F. Supp. 513, 524 (S. D. N. Y., 1945), aff'd 332 U. S. 319, 91 L.Ed. 2077, 66 S. Ct. 1375 (1947). 14

Statutes

United States Constitution, Art. I, Sec. 8, Clause 8 . . 3
United States Code, Title 15, Sec. 1 & 2 3
United States Code, Title 28, Sec. 1254 (1) 2
United States Code, Title 35, Sec. 282 3

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a Corporation, *Petitioner,*

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HARRY A. PURSCHE, an Individual, *Respondent.*

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT.

Atlas Scraper and Engineering Co., the Petitioner herein, prays that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Ninth Circuit, entered in the above-entitled case on February 28, 1966.

Opinions Below

This is a Petition from the second Opinion of the Court of Appeals for the Ninth Circuit, dated February 28, 1966 (App., p. 1a). The Final Judgment, dated October 10, 1963 (App., p. 5a), the Order Relating To Form of Final Judgment, dated August 29, 1963 (App., p. 39a), the Order Denying Motion Of Atlas To Alter and Amend Judgment and Granting Motion To Pursche To Amend Judgment, dated April 17, 1964 (App., p. 44a), and the Order Amending Final Judgment, dated April 21, 1964 (App., p. 41a)

of the United States District Court for the Southern District of California, Central Division, are unreported.

The first Opinion of the Court of Appeals for the Ninth Circuit, dated December 12, 1961 (App., p. 46a), is reported at 300 F.2d 467. The Opinion of the United States District Court for the Southern District of California, Central Division, dated March 20, 1959 (App., p. 83a), is unreported. The original Findings of Fact (App., p. 88a) and the Conclusions of Law (App., p. 105a) are unreported.[1]

Jurisdiction

The Judgment of the Court of Appeals for the Ninth Circuit was entered on February 28, 1966 (App., p. 1a). The Court of Appeals for the Ninth Circuit granted a stay of the issuance of the mandate of that Court pending the disposition of this Supreme Court of the United States of a Petition for a Writ of Certiorari, provided that this Petition is filed by May 27, 1966.

Jurisdiction of the Court is invoked under 28 U.S.C. 1254(1).

Questions Presented

1. Is a clause in a patent license requiring the licensee to grant-back by assignment to the licensor all future improvements to the licensed patents unlawful *per se* because it is much more restrictive than necessary to protect the patentee's legitimate interests?

2. Is a clause in a patent license requiring the licensee and all sub-licensees to grant-back by assignment to the licensor all future attachments, modifications and betterments, whether patentable or not, relating directly or indirectly to the device covered by the licensed patent, and not being infringements of said patent, unlawful *per se*

[1] The original Record will be referred to hereafter as "R. 1" and the Record on Remand as "R. 2".

and misuse of the licensed patent so as to make it unenforceable?

Constitutional Provisions and Statutes Involved

Sections 1 and 2 of the Sherman Act of July 2, 1890, c. 647, 26 Stat. 209, as amended, 15 U.S.C. §§ 1, 2, provide in pertinent part:

> "Sec. 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal * * *.
>
> "Sec. 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor * * *."

Article I, Section 8, clause 8, of the Constitution of the United States provides:

> "The Congress shall have Power
>
> * * * * * * *
>
> "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries; * * *"

35 U.S.C. 282 provides in part:

> "The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:
>
> "(1) Noninfringement, absence of liability for infringement or unenforceability,".

Statement of the Case

At the hearing following remand by the Court of Appeals, Petitioner presented the issue of misuse of Respondent's patents and violation of the Sherman Anti-Trust Law based on the grant-back assignment clause contained in License Agreement, Exh. 19, Paragraph IX (App., p. 119a).[2] This issue was brought before the Trial Court on remand by Petitioner's motion to adjudge Respondent guilty of patent misuse and violation of the anti-trust laws (R. 2, p. 760).[3]

The Trial Court in its Order dated April 17, 1964 (App., p. 44a), denied Petitioner's motion. The Ninth Circuit Court of Appeals in its second opinion which followed judgment on remand, affirmed the Trial Court by stating:

> "Nor did the trial court err in refusing to deny Pursche all relief on the ground that he, Pursche, had misused his own patents to violate the antitrust laws. * * *" (App., p. 2a)

These decisions are contrary to the Sherman Anti-Trust Laws and decisions of the Supreme Court, as well as decisions of lower Federal Courts; the asserted error is

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[2] See also R. 1, p. 16, Par. XXII of Answer.

[3] It was not too late to at this time raise the unclean hands defense. The law is clear that a Court should inquire into this subject *Sua Sponte* to protect its own integrity and the public. *Frank Adam Elec. Co.* v. *Westinghouse Elec. & Mfg. Co.*, 146 F. 2d 165 (8 Cir., 1945). In *McCullough* v. *Kammerer*, 166 F. 2d 759 (9 Cir., 1948), the defense of unclean hands was first raised on appeal. The validity of the license agreement was before the Courts below inasmuch as Petitioner pleaded an unclean hands defense, and the license agreement was before the Court. In any event, the issue is one of law, is being here urged and may, and should be, taken cognizance of by this Court because of its importance to the public. *Muncie Gear Works, Inc.* v. *Outboard Marine & Manufacturing Company*, 315 U.S. 759, 768, 86 L. Ed. 1171, 62 S. Ct. 865, (1942); *Nachman Spring-Filled Corporation* v. *Kay Mfg. Co.*, 139 F. 2d 781, 783 (2 Cir., 1943).

presented broadly in the QUESTIONS PRESENTED (this Petition, p. 2) and specifically argued in a later section.

A brief review of the previous course of the litigation will serve to focus the issues presented herein.

Respondent Harry A. Pursche filed his complaint in the District Court charging Petitioner with infringement of several patents relating to plows and with a claim of unfair competition (R. 1, pp. 1-7), and Petitioner responded with allegations of invalidity, non-infringement, and unclean hands. (R. 1, pp. 7-17).

The basis for Respondent's claims of unfair competition is set forth in the first opinion of the Court of Appeals (App., pp. 69a-74a). Petitioner and Respondent had entered into a License Agreement, Exh. 19, (App., p. 119a) with respect to the plow structures of Respondent's patents in suit. Paragraph IX provides that Petitioner and its sub-licensees shall grant-back by assignment to Respondent all future improvement patents relating to the plow structures forming the subject matter of the agreement.

It further provides that Petitioner and its sub-licensees also grant-back by assignment to Respondent all future attachments, modifications and betterments, whether patentable or not, relating directly or indirectly to devices covered by the patents licensed, such attachments, modifications and betterments not being limited to infringements of the patents licensed.[4]

Petitioner's employee, Roy L. Chandler, made improvements in tail wheel arrangements and gear-type turning devices which are not plows in themselves but are attachments useful on plows and other earth working equipment. For example, they can be used on Petitioner's plow which was found not to infringe any of the patents in suit.

The Trial Court held that Petitioner wrongfully con-

[4] See detailed analysis on p. 7 of this Petition.

cealed the information concerning the improvements (attachments, modifications and betterments) made by Chandler, that Respondent was entitled to an assignment of title to them, and that the concealment of them and their continued use by Petitioner "did and does constitute unfair competition" as to the Respondent (App., p. 110a).

This alleged unfair competition is based upon violation of Paragraph IX of the license agreement, Exh. 19, which Petitioner contends is a misuse of Respondent's patents in that it unlawfully extends the monopoly granted therein and is in violation of the Sherman Anti-Trust Laws.[5]

In the original Judgment, the Trial Court did not compel Petitioner to assign its patent rights. However, the Trial Court on remand went beyond its original Judgment and the first Opinion of the Court of Appeals. The Trial Court added new Paragraph XVII in its Final Judgment of October 10, 1963, which ordered Petitioner (under the illegal grant-back clause of Paragraph IX, Exh. 19) to *assign* to Respondent "its entire right, title and interest in and to said Roy L. Chandler patents Nos. 2, 773, 439 [chain-type tail wheel, Exh. 42 (App., p. 123a)], 2,817,241 [roll-over mechanism, Exh. 44 (App., p. 131a)], 2,842,038 [butterfly tail wheel, Exh. 51 (App., p. 139a)], and the inventions covered thereby, and the design of the tail wheel and roll-over mechanism shown in Figure 6 of Patent No.

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[5] The doctrine of in *Pari Delicto* does not apply against Petitioner because public interest is involved. This Court in *Kiefer-Stewart Co.* v. *Joseph E. Seagram & Sons, Inc., et al.*, 340 U.S. 211, 214, 95 L. Ed. 219, 71 S. Ct. 259 (1951), held:

> "• • • It is now contended that the trial court erred in charging the jury that petitioner's part in such a conspiracy, even if proved, was no defense to the present cause of action. We hold that the instruction was correct. • • • The alleged illegal conduct of petitioner, however, could not legalize the unlawful combination by respondents nor immunize them against liability to those they injured. • • •"

2,830,519 [this patent is Exh. AR (R. 1-1527) and discloses Petitioner's non-infringing plow]". (App., p. 8a)

The Trial Court, in Paragraph XIX of the new Final Judgment, as amended, issued an injunction preventing Petitioner from selling separately tail wheels or roll-over mechanisms to others and from granting sub-licenses (App., p. 42a). The Trial Court also included the word "fraudulent" in Paragraph XVI of the Final Judgment (App., p. 8a), whereas before the first appeal the Trial Court had found the acts to be merely unfair (App., pp. 104a, 105a, Paragraphs 80 and 83). There is no finding of intent to defraud contained in the original findings. The word "fraudulent" refers to Petitioner's failure to comply with illegal Paragraph IX of the License Agreement in failing to disclose and grant-back by assignment the inventions made by Chandler.

The portion of the License Agreement, Exh. 19, which Petitioner alleges constitutes the misuse and anti-trust violation, is Paragraph IX, which is worded in part as follows:

> "Atlas agrees, for itself and for its sub-licensees, to promptly and fully disclose to Pursche any and all *inventions* and *improvements, modifications* and *betterments* made, discovered or acquired by Atlas and/or its *sub-licensees* relating to the *plow construction* forming the subject matter of this agreement; and any and all such *inventions, improvements, modifications* and *betterments* upon the aforesaid plow construction made during the life of this agreement by or through the efforts of *Atlas* and/or its *sub-licensees,* or coming under the control of Atlas or its sub-licensees, *shall belong to Pursche whether patentable or not and shall be properly assigned to Pursche by Atlas, free from*

any payment or compensation therefor, to the full extent of the interest of Atlas or its sub-licensees therein, and will be available to Atlas free from the payment of any additional or further royalty or compensation therefore; if Pursche desires to file and prosecute applications for letters patent thereon, Atlas will to the best of its ability endeavor to obtain and deliver to Pursche, his heirs, executors, administrators, or assigns at his or their expense, the necessary assignments, applications, petitions, oaths, and instruments which Pursche shall deem necessary in order to apply for and obtain letters patent of the United States or foreign countries for the inventions, improvements, modifications, attachments and betterments so *relating directly or indirectly to the plow construction* forming the subject matter of this agreement, which inventions, improvements, modifications, attachments and betterments shall be and remain the sole and exclusive property of Pursche, his heirs, executors, administrators and assigns, *whether patentable or not;* * * * but not withstanding the premises such inventions, discoveries, and improvements and any applications for letters patent and letters patent issued thereon *shall be the sole and exclusive property of Pursche."* (Emphasis added) (App., p.)

Under Paragraph IX, and in accordance with the decisions below, the Petitioner and its sub-licensees, during the term of the agreement, are required to grant-back by assignment to the Respondent all future improvement inventions [6]

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[6] An improvement is defined in 1 Robinson on Patents, p. 296, as follows:

"An improvement is an addition to or alteration in some existing means, which increases its efficiency without destroying its identity. It includes two necessary ideas: first, the idea of a complete and practically operative art or instrument, either natural or artificial,

relating to the plow constructions forming the subject matter of the agreement *and, in addition, all future attachments, modifications and betterments, whether patentable or not, and relating directly or indirectly to the devices covered by the patents licensed,* such attachments, modifications and betterments not being limited to infringements of the patents licensed.

As an illustration, the Trial Court (App., p. 8a) required the assignment of Petitioner's interest in the design of the tail wheel and roll-over mechanism shown in Figure 6 of Patent No. 2,830,519, Exh. AR, which roll-over mechanism is not even useful on Respondent's plows.

Respondent's patents cover plows comprising a combination of elements. The Court of Appeals in its first decision held invalid all of the combination claims which included a tail wheel (App., pp. 54a-57a). Tail wheels in combination with plows are not, therefore, the subject matter of Respondent's patent rights. Tail wheels are attachments which are not only added to plows, but also to other earthworking equipment.

The Chandler Patent No. 2,817,241, Exh. 44, broadly discloses and claims an actuating mechanism. The claims of this patent are *not* limited to a plow or other earthmoving equipment. Thus, the extended monopoly acquired by Respondent extends outside the earthworking equipment field.

Patent No. 2,830,519, Exh. AR, the rights of which have been ordered assigned by the lower Courts under the provisions of Paragraph IX of the License Agreement, discloses a two-way plow, but its claims are directed to earthworking equipment. Therefore, the added patent monopoly

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as the original to be improved; and second, the idea of some change in such art or instrument, not affecting its essential character, but enabling it to produce its appropriate results in a more perfect or a more economical manner."

acquired by Respondent under Figure 6 of this patent is not limited to plows but covers the entire field of earth-working equipment.

It is thus clear that the provisions of Paragraph IX of the License Agreement, Exh. 19, have illegally projected Respondent's patent rights to include monopolies beyond the monopoly of Respondent's patents.

Reasons for Granting the Writ

The decisions of the Trial Court and the Court of Appeals are in conflict with a long line of Supreme Court decisions which condemn using patents to control items beyond or outside the scope of the patents; and are contrary to decisions which hold it to be anti-trust violation to accumulate patents by grant-back assignment clauses in agreements.

The only justification for such a grant-back clause is to protect a patentee's legitimate interest under his patent and no more. The grant-back clause in the license agreement involved herein goes far beyond this. The grant-back provision does not merely protect Respondent's market for his plow within the legal monopoly of his patents, but goes far beyond this and enables Respondent to acquire title to independent inventions which are not within the claims of Respondent's patents and which are separate monopolies which extend beyond the date of expiration of Respondent's patents.

Competitors making plows which do not come within Respondent's patents have become liable to him for infringement under the patents of his illegally extended monopoly.

By the assignment, as required by the License Agreement, Exh. 19, of the rights in the Chandler tail wheels and roll-over mechanisms, Respondent is put in a position to eliminate Petitioner as a competitor and further to eliminate as

competitors, five manufacturers who manufacture plows on which the Chandler inventions are used (R. 2, p. 797). The enforcement of the agreement constitutes a means by which Respondent can stop other manufacturers from making plows which do not infringe his own patents.

This is the very evil, in regard to improvements, that this Court specifically referred to in *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637, 91L. Ed. 563, 67 S.Ct. 610 (1947), where it said:

> "*Third. We are quite aware of the possibilities of abuse in the practice of licensing a patent on condition that the licensee assign all improvement patents to the licensor.* Conceivably the device could be employed with the purpose or effect of violating the anti-trust laws. He who acquires two patents acquires a double monopoly. As patents are added to patents a whole industry may be regimented. The owner of a basic patent might thus perpetuate his control over an industry long after the basic patent expired. *Competitors might be eliminated and an industrial monopoly perfected and maintained.* * * *" (Emphasis added) (329 U.S. at pp. 646, 647)

The actual holding made by the Supreme Court in the *Transparent-Wrap* case is:

> "We only hold that the inclusion in the license of the condition requiring the licensee to *assign improvement patents* is not *per se* illegal and unenforceable." (Emphasis added) (329 U.S. at p. 648)

It is clear that the *Transparent-Wrap* case is not the law of this case because *Transparent-Wrap* is limited to "improvement patents", whereas Paragraph IX of the License Agreement, Exh. 19, requires the assignment not only of

improvement patents but also of patents covering competitive devices, attachments, and patents not even limited to plows.

In the *Transparent-Wrap* case, this Court recognized the strategic value of an improvement patent and the competitive handicap of one who assigns an improvement patent and stated:

> "* * * But the competitive handicap or disadvantage which he suffers is no greater and no less whether the consideration for the assignment be the right to use the basic patent or something else of value. * * *" (329 U.S. at pp. 642, 643)

However, it may be that a licensee may not want to sell his improvement patent, even for a generous sum. The patentee or licensor nevertheless says: "The only basis on which I will grant you a license is for you to agree to assign your improvements to me." Economic pressure and a licensee's needs may be so impelling that he is forced, against his better judgment, to promise to assign the improvement inventions. Thus, the patent is indeed employed as a monopolistic lever against the licensee.

Respondent in this case, however, went further than the licensor in the *Transparent-Wrap* case and wrote his grant-back clause in such a manner that the lower Courts interpreted it to require the licensee to assign competitive inventions and sub-combinations and attachments relating to structures outside the scope of Respondent's claims.

The resulting patents acquired by Respondent would put him in a position to keep off the market competitive plows not covered by his patents. The public, whose interest is paramount, would thus be deprived of competitive equipment by Respondent's shelving of patents for his own selfish interests.

In the *Transparent-Wrap* case, this Court refers to the

fact that the owner of an unpatented machine could lease such machine on the condition "* * * that all improvements which the lessee or licensee patents should be assigned. * * *" (329 U.S. at p. 644), and then asks:

> "* * * and if the owner of an unpatented machine could exact that condition, why may not the owner of a patented machine?" (329 U.S. at p. 645)

If the owner of an unpatented machine imposes such a restriction on a purchaser or lessee, the purchaser or lessee may purchase or lease the machine from someone else or build it himself. On the other hand, where the machine is patented, the lessee or licensee cannot purchase the machine from anyone else or build it himself, except under the penalty of an infringement suit. Therefore, the patent is indeed a leverage which forces the licensee to accept the terms of the patentee or suffer an economic loss by not having machines available for use. Under such circumstances a lessee or licensee is forced to yield to the leverage of the patent monopoly.

This Court in *Transparent-Wrap* further states:

> "* * * The difficulty is that Congress has not made illegal the acquisition of improvement patents by the owner of a basic patent. * * *" (329 U.S. at p. 645)

However, anti-trust laws may be applicable in such a situation. We believe it clear in the present case that Respondent used his patent monopoly as coercion to acquire not only improvement patents, but patents on competitive structures, sub-combinations and attachments. Such acquisition goes far beyond the legitimate requirements of Respondent and is a *per se* violation of the anti-trust laws.

In *U.S.* v *General Electric Company*, 80 F.Supp. 989, 1005, 1006 (S.D.N.Y., 1948), grant-back arrangements were held

illegal when combined with other unlawful activities, including price-fixing agreements. In *U.S.* v. *General Electric Co.*, 82 F.Supp. 753, 815, 816 (D. N.J., 1949), a patent owner's requirement that his licensee grant-back *non-exclusive* licenses on any improvement patents was struck down because the specific intent of his licensing policy was to perpetuate domination over the industry.

In *U.S.* v. *National Lead Co., et al.*, 63 F.Supp. 513, (S.D.N.Y., 1945), aff'd 332 U.S. 319; 91 L.Ed. 2077, 66 S. Ct. 1375 (1947), the Court stated:

> "* * * The agreements applied to patents not yet issued and to inventions not yet imagined. They applied to commerce beyond the scope of any patents. They extend to a time beyond the duration of any then-existing patent. * * *
>
> "* * * And where there is a refusal to license (or refusal to license except on specified conditions *which would extend the patent monopoly*) which is the product of agreement or conspiracy, on the part of the owners of competing patents, I believe, the law is offended to the same extent as the law is violated when several combine and agree not to do business with a particular customer or class of customers. * * *" (Emphasis added) (63 F.Supp at p. 524)

In *Cutter Laboratories* v. *Lyophile-Cryochem Corp.*, 179 F. 2d 80 (9 Cir., 1949), the Court said:

> "* * * The sole limitation is, that he must not use his legitimate patent monopoly as a means of suppressing competition or acquiring a monopoly *outside* of the area of monopoly which the patent grants * * *." (Emphasis added) (179 F.2d at p. 92)

It is respectfully submitted that the holding in the *Transparent-Wrap* case is limited to its own particular set of facts and is not controlling here. The present case is a situation where competitors are eliminated because Respondent has gained control of monopolies in addition to those of his own patents as a result of the grant-back assignment clause of the License Agreement, Exh. 19.

If the *Transparent-Wrap* case is considered to be controlling, then it is respectfully submitted that a further study of the law should be made; and that grant-back assignment clauses which are more restrictive than necessary to protect patentee's legitimate interests under his patent monopoly be held unlawful *per se*.[7]

The Trial Court and the Ninth Circuit Court of Appeals decisions are in conflict with a number of Supreme Court decisions which prohibit using a patent to secure a monopoly on items which are outside the scope of the patentee's patent.

In *Leitch Manufacturing Co.*, v. *Barber Company*, 302 U.S. 458, 82 L. Ed. 371, 58 S. Ct. 288 (1937), this Court stated:

> "* * * By the rule there declared every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited. * * * It applies whatever the nature of the *device* by which the owner of the patent seeks to effect such unauthorized extension of the

[7] In his speech at the August 1965 meeting of ABA Antitrust Section in Miami, Florida, Assistant Attorney General Donald Turner described his intention to "seek to establish, contrary to Trans-Wrap, that a clause in a patent license requiring the licensee to grant back to the patentee all future improvement patents should be unlawful per se for the simple reason that it is much more restrictive than necessary to protect the patentee's legitimate interests." Reported in *Anti-Trust & Trade Regulation Report*, April 26, 1966, No. 250, p. B-5.

monopoly. * * *'" (Emphasis added) (302 U.S. at p. 463)

Similarly, in *Ethyl Gasoline Corporation, et al.* v. *United States*, 309 U.S. 436, 84 L. Ed. 852, 60 S. Ct. 618 (1940), this Court more specifically stated the rule in regard to licenses:

> "He may grant licenses to make, use or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, *save only that by attaching a condition to his license he may not enlarge his monopoly* and thus acquire some other which the statute and the patent together did not give.
>
> "He may not * * * condition the license so as to control conduct by the licensee not embraced in the patent monopoly. * * *'" (Emphasis added) (309 U.S. at p. 456) "* * * The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another * * * than for the exploitation of an unpatented article, * * * or for the exploitation or promotion of a business not embraced within the patent. * * *'" (309 U.S. at p. 459)

The same is indicated in *United States* v. *Masonite Corporation, et al.*, 316 U.S. 265, 86 L. Ed. 1461, 62 S. Ct. 1070 (1942), this Court stating:

> "* * * The owner of a patent cannot extend his statutory grant by contract or agreement. * * *'" (316 U.S. at p. 277)

The decisions of the Courts below are in conflict with this Court's decision in *Morton Salt Co.* v. *Suppiger Co.*, 314 U.S. 488, 86 L. Ed. 363, 62 S. Ct. 402 (1942). In that case respondent brought suit against petitioner for infringement of a machine for depositing salt tablets in tablet form

in the contents of cans in the canning industry. The respondent, by agreement, required its licensees to use, with the patented machines, only tablets sold by respondent. Petitioner charged this restriction to violate Paragraph 3 of the Clayton Act, 15 U.S.C. 14. This Supreme Court stated that the question which must be decided is not necessarily whether respondent had violated the Clayton Act, but "* * * whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article." (314 U.S. at p. 490)

The Supreme Court in the *Morton Salt* case further expressed the basic principle:

> "* * * A patent operates to create and grant to the patentee an exclusive right to make, use and vend the particular device described and claimed in the patent. But a patent affords no immunity for a monopoly not within the grant, *Interstate Circuit* v. *United States*, 306 U.S. 208, 228, 230, 83 L. Ed. 610, 621, 622, 59 S. Ct. 467; *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 456, 84 L.Ed. 852, 861, 60 S. Ct. 618, * * *
>
> "* * * But the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant." (314 U. S. at pp. 491, 492)

The Trial Court and Ninth Circuit Court of Appeals decisions are in conflict with *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 88 L.Ed. 376, 64 S. Ct. 268 (1944). In that case *Mid-Continent* was using its patent

to control the sale of an unpatented element of a combination claimed in the patent in suit. The Supreme Court in its decision referred to a number of cases including the *Morton Salt Co.* case, *supra,* and *B. B. Chemical Co.* v. *Ellis,* 314 U. S. 495, 6 L.Ed. 367, 62 S. Ct. 406 (1942), commenting that "* * * both direct and contributory infringement suits were disallowed on a showing that the owner of the patent was using it 'as the effective means of restraining competition with its sale of an unpatented article.' * * *" but said "* * * we can see no difference in principle where the unpatented material or device is itself an integral part of the structure embodying the patent." (320 U. S. at p. 665)

In *Mercoid* this Court further stated:

> "* * * It is the public interest which is dominant in the patent system. * * * The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly. The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use. * * * When the patentee ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limitations upon that right which the general law imposes upon such contracts. * * *
>
> "* * * But for the patent such restraint on trade would plainly run afoul of the anti-trust laws. If the restraint is lawful because of the patent, the patent will have been expanded by contract. That on which no patent could be obtained would be as effectively protected as if a patent had been issued. Private business would function as its own patent office and impose *its own law*

> *upon* licensees. It would obtain by contract what letters patent alone may grant. *Such a vast power 'to multiply monopolies' at the will of the patentee * * * would carve out exceptions to the anti-trust laws which Congress has not sanctioned. * * *"* (Emphasis added) (320 U. S. at pp. 665, 666, 667)

The decisions of the Trial Court and Ninth Circuit Court of Appeals are in conflict with the Supreme Court decision in *Brulotte, et al.* v. *Thys Company*, 379 U.S. 29, 13 L.Ed. 2d 99, 85 S.Ct. 176 (1965), because in holding the grant-back clause valid, they have decided, in conflict with *Brulotte*, that it is legal to project royalties beyond the date of Petitioner's patents by obtaining additional patents which perpetuate Respondent's monopolies many years beyond the monopoly of the patents in suit.

In the *Brulotte* case the Supreme Court said:

> "A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones. * * *" (379 U.S. at p. 33)

The acquisition of patent rights through a license, which patent rights will extend beyond the life of the licensor's patent, is also analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented articles to the purchase or use of the unpatented ones. This is particularly true in regard to the present agreement which requires the licensee and sub-licensees to assign to the licensor all rights in future developments, "whether

patentable or not", "relating directly or indirectly to the plow construction forming the subject matter of this agreement."

This Court in *Brulotte* further stated:

> "* * * that after expiration of the last of the patents incorporated on the machines 'the grant of patent monopoly was spent' and that an attempt to project it into another term by continuation of the licensing agreement is unenforceable." (379 U.S. at pp. 33, 34)

In the same manner, in a license agreement, as here, where a patent owner, licensor, acquires the ownership of a patent which will expire after his patent monopoly is spent, there is an attempt to project his patent into another term.

Conclusion

A guiding decision on grant-back assignment clauses, particularly those of the scope of the one herein involved, is of paramount importance to the Courts, lawyers and the public. Many patent licenses having grant-back clauses of different scopes are written every year. Indeed, many books include sample grant-back clauses which may be used by lawyers and the public. For example, *The Patent Royalty Contract,* by Max Zabel, Prentice-Hall, 1933, on page 89, includes a sample grant-back clause. Also, Ellis, *Patent Licenses,* Third Edition, by Deller, Baker, Voorhis, 1958, on page 180, refers to the *Transparent-Wrap* case and states:

> "A provision in a patent licensing agreement requiring the licensee to assign improvement patents to the licensor is not *per se* illegal and unenforceable. * * *"

There is, it is respectfully submitted, a great need for an accurate definition of the scope of a grant-back assignment clause which will not violate the anti-trust laws.

The *Transparent-Wrap* doctrine is limited to "improvement patents" and if legality of a grant-back assignment clause is *limited* to improvement patents, then, of course, the grant-back clause involved in the license agreement of this litigation is illegal.

It is vitally important to know whether or not a grant-back assignment clause can be broader than in the *Transparent-Wrap* case, and also whether changing conditions would, upon reevaluation of *Transparent-Wrap*, cause this Court to conclude that even the *Transparent-Wrap* grant-back assignment clause is too broad, and, therefore, invalid *per se*.

It would appear that any grant-back assignment clause which demands *more* than a non-exclusive royalty bearing license, with the right of the licensor to sublicense his other licensees, limited to the life of the licensor's patents under improvements in licensor's patents only, would be invalid *per se* as being "much more restrictive than necessary [legitimately] to protect the patentee's legitimate interests."[8]

For the reasons stated, this petition should be granted.

Respectfully submitted,

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[8] Mr. Turner's statement at the August, 1965 ABA Antitrust Section Meeting in Miami.